What questions are you trying to answer?

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Questions to ask yourself

- Before you start building your model, you should have a very good idea of the overall structure and flow you're creating. In order to do that, you need to know what questions you're trying to answer.
- Examples of questions:
  - What are the key drivers of revenue for my business?
  - Which business model is better?
  - What pricing model should we use?
  - How would revenues look like if we did X vs. Y vs. Z?
  - How quickly do we need to grow in order to hit our profit goals?
- Don't try to answer all of them at the same time, just start with one
- It's up to you to decide what the most important question is, but you have to have it clear in your mind when you start modeling your business

See you next lecture!

Mapping it out

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Following a clear structure

- Once you have the questions you're trying to answer in mind, you can map out a route, like we did in the lemonade stand business:

- 1) We started with estimating foot traffic
  2) We looked at the likelihood of those folks actually stopping at a food or beverage stand
  3) We looked at the % of folks who stop that will end up buying
  4) We realized that some people buy more than one item.
  5) We looked at the top line revenue figures
  6) We took out the cost of goods sold
  7) We calculated gross profits

- By having this structure in your mind, it makes it easier to structure your model in the same way

- One of the benefits of mapping it out is it forces you to clarify your understanding of your business model

- In order for your model to work, you have to be as realistic as possible with the numbers you put in. You can’t do that unless you know your industry and your business model well enough

See you next lecture!